

AFA ACTION, INC.
FINANCIAL STATEMENTS

December 31, 2022



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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of AFA Action, Inc.

Opinion

We have audited the accompanying financial statements of AFA Action, Inc. (a nonprofit organization), which comprise the statement of financial position as of December 31, 2022 and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of AFA Action, Inc. as of December 31, 2022, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of AFA Action, Inc. and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about AFA Action, Inc.'s ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material generally accepted auditing standards misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of AFA Action, Inc.'s internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about AFA Action, Inc.'s ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Watkins Mikusall, PLLC

Tupelo, Mississippi
June 19, 2023

AFA ACTION, INC.

STATEMENT OF FINANCIAL POSITION

December 31, 2022

<u>Assets</u>	
Current Assets	
Cash and cash equivalents	\$ 124,956
Other receivables	6,094
Total current assets	<u>131,050</u>
Goodwill, net of accumulated amortization	<u>253,516</u>
Total assets	<u><u>\$ 384,566</u></u>
<u>Liabilities and Net Assets</u>	
Current Liabilities	
Accounts payable	\$ 32,717
Accrued wages	13,721
Due to related party	9,165
Total current liabilities	<u>55,603</u>
Net Assets	
Without donor restrictions	<u>328,963</u>
Total liabilities and net assets	<u><u>\$ 384,566</u></u>

The accompanying notes are an integral part of the financial statements.

AFA ACTION, INC.

STATEMENT OF ACTIVITIES

For the Year Ended December 31, 2022

Support and other revenues	
Contributions	\$ 1,870,298
Partner fees	18,000
Other revenues	40
Total support and other revenues	<u>1,888,338</u>
Expenses	
Program services	1,234,649
Management and general	129,817
Fundraising	238,098
Total expenses	<u>1,602,564</u>
Change in net assets	285,774
Net assets without donor restrictions, beginning of year	<u>43,189</u>
Net assets without donor restrictions, end of year	<u>\$ 328,963</u>

The accompanying notes are an integral part of the financial statements.

AFA ACTION, INC.

STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended December 31, 2022

	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
Salaries	\$ 353,641	\$ 25,700	\$ 11,828	\$ 391,169
Payroll taxes and benefits	32,098	3,194	3,329	38,621
Contract labor	461,378	-	7,303	468,681
Total personnel expenses	<u>847,117</u>	<u>28,894</u>	<u>22,460</u>	<u>898,471</u>
Professional fees	120,389	55,684	7,315	183,388
Advertising and promotion	81,795	278	173,033	255,106
Office expense	4,924	304	304	5,532
Telecommunications	2,658	164	164	2,986
Travel	28,498	1,762	1,762	32,022
Conferences	-	-	24,001	24,001
Data services	8,197	-	-	8,197
Website hosting	22,182	7,214	1,711	31,107
Computer software	90,771	5,610	5,610	101,991
Other expense	28,118	1,738	1,738	31,594
Amortization of goodwill	-	28,169	-	28,169
Total expenses	<u>\$ 1,234,649</u>	<u>\$ 129,817</u>	<u>\$ 238,098</u>	<u>\$ 1,602,564</u>

The accompanying notes are an integral part of the financial statements.

AFA ACTION, INC.

STATEMENT OF CASH FLOWS

For the Year Ended December 31, 2022

Cash Flows From Operating Activities:	
Change in net assets	\$ 285,774
Adjustments to Reconcile Change in Net Assets to Net Cash	
Cash Provided by Operating Activities:	
Amortization of goodwill	28,169
Change in Operating Assets and Liabilities:	
Increase (Decrease) in Cash and Cash Equivalents:	
Receivables	(6,094)
Accounts payable	32,717
Accrued wages	13,721
Due to related party	9,165
Net cash provided by operating activities	<u>363,452</u>
 Cash Flows From Investing Activities:	
Purchase of goodwill	<u>(281,685)</u>
 Net increase in cash and cash equivalents	81,767
 Cash and cash equivalents, beginning of year	<u>43,189</u>
 Cash and cash equivalents, end of year	<u><u>\$ 124,956</u></u>

The accompanying notes are an integral part of the financial statements.

AFA ACTION, INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 2022

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Nature of Operations

AFA Action, Inc. (the “Organization”) is a nonprofit organization founded in 2006. The mission of the Organization is to inform and mobilize voters and government officials to align with biblical and constitutional principles.

Basis of Accounting

The financial statements of the Organization have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (“GAAP”).

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Revenue Recognition

Contributions are recognized when cash, securities or other assets, or an unconditional promise to give is received. Conditional promises to give, that is, those with a measurable performance or other barrier, and a right of return, are not recognized until the conditions on which they depend are met.

Partner fees are recognized for services provided when the performance obligation is satisfied.

Credit Risks and Concentrations

The Organization’s credit risks primarily relate to cash and cash equivalents and receivables. The Organization maintains several accounts at a bank. Those accounts are insured by the Federal Deposit Insurance Corporation up to an aggregate of \$250,000 per institution. Management believes the Organization is not exposed to any significant credit risk related to cash and cash equivalents.

For the year ended December 31, 2022, one related-party donor (see Note 4) accounted for approximately 56% of contribution revenue.

Donated Materials and Services

Donated materials and services are recorded as contributions at their estimated fair values at the date of donation. Donated services are required to be recognized in the financial statements if the services either 1) create or enhance a nonfinancial asset or 2) require specialized skills, are provided by entities or persons possessing those skills, and would need to be purchased if they were not donated.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Organization considers all highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents.

Goodwill

The Organization acquired the assets of another nonprofit during 2022. The purchase price of the assets acquired exceeded the fair value of the assets, which resulted in the recording of goodwill in the amount of \$281,685. In accordance with GAAP, the Organization amortizes goodwill on a straight-line basis over ten years. Amortization expense was \$28,169 for the year ended December 31, 2022.

Net Assets

Net assets, revenues, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein, are classified and reported as follows:

Net Assets Without Donor Restrictions — Net assets available for use in general operations and not subject to donor-imposed restrictions. Net assets without donor restrictions may be designated for specific purposes by action of the Board of Directors or may otherwise be limited by contractual agreements with outside parties.

Net Assets With Donor Restrictions — Net assets subject to donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions. When a restriction expires in the reporting period in which the revenue is recognized, revenue is reported as an increase in net assets without donor restrictions.

Functional Allocation of Expenses

The costs of providing programs and supporting services have been summarized on a functional basis in the statement of functional expenses. Accordingly, certain costs have been allocated among the various program and supporting services based on estimates made by management.

Advertising

Advertising costs are expensed as incurred and totaled \$255,106 for the year ended December 31, 2022.

Income Taxes

The Organization is exempt from federal income tax under Internal Revenue Code Section 501(c)(4). Contributions to the Organization from donors are deductible for federal income tax purposes as charitable contributions. The Organization files an exempt organization return in the U.S. Federal Jurisdiction.

Date of Management's Review

The Organization evaluated its December 31, 2022 financial statements for subsequent events through June 19, 2023, the date the financial statements were available to be issued. The Organization is not aware of any subsequent events which would require recognition or disclosure in the financial statements.

NOTE 2 – LIQUIDITY AND AVAILABILITY

Financial assets available for general expenditure within one year of the statement of financial position date comprise the following at December 31, 2022:

Cash and cash equivalents	\$ 124,956
Other receivables	<u>6,094</u>
	<u>\$ 131,050</u>

The Organization has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. Normal operating expenses per month are, on average, approximately \$136,000.

NOTE 3 – GOODWILL

At December 31, 2022, the carrying amount of goodwill was \$253,516 and accumulated amortization was \$28,169.

Estimated future amortization expense is as follows for the years ending December 31:

2023	\$ 28,169
2024	28,169
2025	28,169
2026	28,169
2027	28,169
Thereafter	<u>112,671</u>
	<u>\$ 253,516</u>

NOTE 4 – RELATED PARTY TRANSACTIONS

During the year, a related party organization with some common officers and board members (“AFA”) paid certain expenses on the Organization’s behalf. At December 31, 2022, the Organization had payables to AFA totaling \$9,165.

AFA also provided \$1,044,290 in contributions to the Organization during the year ended December 31, 2022.